



Director of
Central
Intelligence

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Monday
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SYRIA-USSR:

Assad's Visit

President Assad is due in Moscow soon for what probably will be
thorny discussions with General Secretary Gorbachev.

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[REDACTED] even though Syria hopes
to prevent a reunification of the PLO under Yasir Arafat at the
planned Palestine National Council meeting in Algiers. Assad wants to
avoid Arab and Soviet criticism of his stance. [REDACTED] b3
the Soviets remain critical of Syria's Lebanon policy, although the
Soviet press recently lauded Syria for intervening in West Beirut to
end the fighting between the Shia Amal and the Palestinians. [REDACTED] b3

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[REDACTED] Assad probably is preparing to give limited support to the
Soviet drive for an international conference on peace in the Middle
East and to modify his stance on Palestinian issues, but he is loath to
drop his opposition to Arafat. Given the intense preparatory
discussions between Syrian and Soviet experts, Assad may expect to
sign a major new arms deal; he probably would settle, however, for
debt rescheduling and the selective acquisition of new equipment.

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[REDACTED] The Soviets may intend to take advantage of Assad's vulnerabilities
to press harder for political concessions, although they are unlikely to
push to the point of serious strains in the relationship. Moscow
probably will agree to reschedule Syria's large military debt; it is less
likely to offer major concessions for future military or economic
agreements. Gorbachev and Assad may agree in principle to upgrade
Syrian air defense equipment or deliver already promised weapons
like the MIG-29 fighter, but the Soviets are unlikely to sign new deals
for major advanced weapon systems until they are confident of
receiving some payment or perhaps political concessions. [REDACTED] b3

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PLO-ALGERIA:

Palestine National Council Meeting

PLO Chairman Arafat's apparent agreement to abrogate the Amman accord on Middle East peace he reached with Jordan's King Hussein in 1985 has paved the way for a Palestine National Council meeting in Algiers scheduled to begin today, and the Abu Nidal group may participate as an observer.

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[REDACTED] the timing of the National Council opening is uncertain—the issue of PLO-Egyptian relations remains unresolved—but discussions have apparently reached a final and decisive phase.

[REDACTED] Arafat convened the PLO executive committee yesterday to ratify abrogation of the Amman accord before the meeting begins. The statement yesterday blames the US and Israel—not Jordan's King Hussein—for failure of the accord and signals the PLO's intention to pursue Arab-sponsored peace talks.

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[REDACTED] Efforts to find a compromise formula governing the PLO's relations with Egypt may push back the opening of the Council meeting, although it is likely to take place sometime this week—if the general compromise agreement does not unravel. Arafat is likely to resist demands that he break relations with Egypt, which has spearheaded the effort to include the PLO in an international peace conference. If the reported text of the agreement to abrogate the Amman accord is authentic, it demonstrates Arafat's intention to push through a cautious statement that satisfies radical demands for a symbolic break with Jordan but does not burn all bridges to King Hussein and his moderate Arab allies.

If the Abu Nidal group has pledged to renounce international terrorism, it almost certainly did so primarily to gain access to the Council meeting. The group's leaders probably see participation in the meeting as a way to enhance the group's status within the Palestinian movement and to try to radicalize the PLO. Abu Nidal terrorist operations have taken place almost exclusively outside Israel and the occupied territories, and the group is unlikely to abandon the anti-Western terrorist activities for which it has become known.

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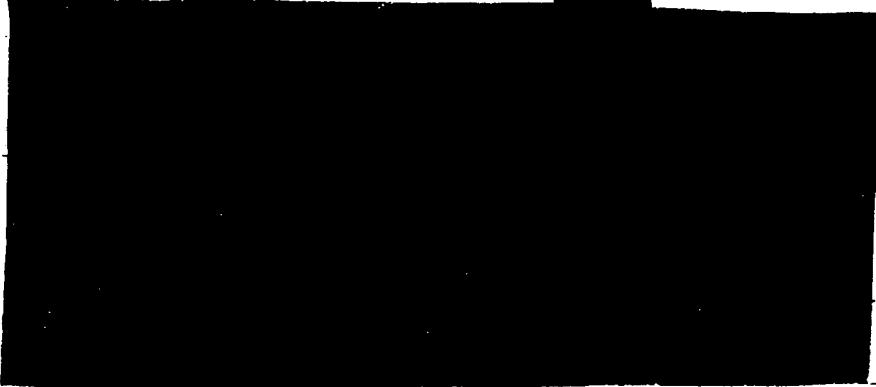
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ZIMBABWE-
SOUTH AFRICA:

Reaction to Soviet Arms Deal

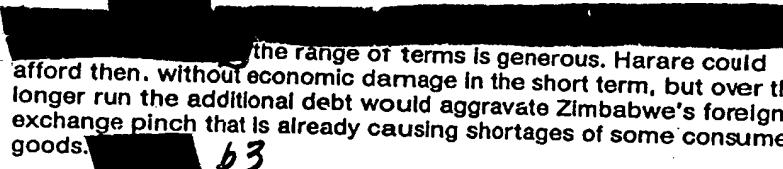
b1 b3 [redacted] Zimbabwe's arms deal with the USSR are stirring debate within Prime Minister Mugabe's government, but South Africa's response has been muted. b3

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Pretoria's response to the accord so far has been low-key, despite widespread media coverage in South Africa. Reports in the progovernment press have been limited to criticism of the negative economic consequences for Zimbabwe and of Moscow's efforts to buy influence through military rather than economic aid. Defense Minister Malan, the only official to comment, has repeated these themes. b3

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[redacted] the range of terms is generous. Harare could afford them without economic damage in the short term, but over the longer run the additional debt would aggravate Zimbabwe's foreign exchange pinch that is already causing shortages of some consumer goods. b3

[redacted] Those senior officials and members of Parliament who oppose the arms deal are unlikely to take a strong stand against it if they believe that Mugabe supports the agreement. Mugabe, as he has on other controversial issues, will probably allow debate of the deal to continue in order to gauge domestic and foreign reaction. b3

[redacted] South Africa's response suggests a desire to convey an image of military strength rather than vulnerability on the eve of next month's white elections. Nevertheless, Pretoria probably will periodically raise the issue to support its contention of a "Communist onslaught." b3

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EC:

Prospects for Agricultural Reform

EC agricultural ministers will soon consider a new proposal by the EC Commission that is designed to help reduce the EC's farm production and export subsidies. b3

The proposal would allow direct payments to farmers whose incomes fall below a regional average. Richer northern member states are to pay the subsidies largely by themselves. Poorer members are to receive EC funds. b3

The estimated direct costs of the plan for the EC will be \$2.5 billion over the next five years; the present annual farm budget is about \$25 billion. The EC is already considering other proposals to freeze most EC farm prices, cut the price of grain by almost 3 percent, and generally increase the role of the free market in farm sales. b3

b3 The proposal is a radical departure from the Community's present policy, which guarantees farm incomes through a system of internal price supports. Direct income payments are likely to facilitate member-state agreement on price cuts and acreage reduction—important steps toward reducing production and the budgetary costs of the EC's Common Agricultural Policy.

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The poorer, Mediterranean members are likely to fear that the proposal will put their farm sectors at a further disadvantage because the north would be able to pay more in national subsidies. These members could construe the new proposal as a first step toward "renationalizing" the Common Agricultural Policy or abolishing the common market for farm products; it will generate heated discussion among the member states. b3

Nevertheless, general concern about the EC's budget crisis makes it likely that some package of reform proposals that may eventually reduce farm production and export subsidies will be approved by this summer. These may include price cuts and, to assuage Mediterranean concerns, strict Commission monitoring of national income payment schemes. b3

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ZAMBIA:

Drought Compounds Kaunda's Problems

Drought in southern and western Zambia and labor unrest are adding to President Kaunda's domestic troubles. b3

The drought and late deliveries of fertilizer have resulted in a 25- to 30-percent reduction in the harvest of corn—the country's primary food crop—and a poor harvest of other grains such as millet and sorghum. Areas in the south and west near the Zimbabwean border have lost 50 to 100 percent of their crop. Last week the government raised producer prices for corn in order to offset the rising costs of fertilizer. Kaunda has appealed for international assistance to help cope with the emergency. b3

Kaunda has also threatened to arrest striking workers to curb illegal walkouts that have recently plagued the country. Postal workers walked off the job earlier this month, crippling communications services, and the Zambian Congress of Trade Unions plans to boycott Labor Day celebrations on 1 May.

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If the drought persists until the end of the dry season in October, harvests late in the year will be sharply reduced, probably resulting in a need to increase imports and possibly retail prices of staples. The government will try to avoid raising consumer prices for corn in the near term, an action that provoked food riots last year. Lusaka probably will have to increase government subsidies soon, however, to offset producer price increases, further undermining its IMF-backed economic reform program. The Zambian Prime Minister probably will mention the drought in meetings this week in Washington with World Bank and IMF officials. b3

Wildcat strikes are likely to continue as workers struggle to maintain their declining standard of living. Any government move to arrest strikers will provoke the powerful unions. Disgruntled senior government officials do not appear to constitute a serious challenge to Kaunda at this time, but the growing opposition reflects the erosion of his authority. b3

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ARGENTINA: Military Rebellion Ends

President Alfonsin yesterday persuaded mutineers at the infantry school near Buenos Aires to surrender peacefully.

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Although the immediate crisis is past, the civilian courts must quickly follow up with a decision supporting the political parties' declaration. Although the courts have been reluctant to absolve officers who were following orders, they will be pressured heavily by the overwhelming multiparty support in favor of limiting the trials. Alfonsin will probably deal decisively with the mutineers to try to discourage similar rebellions because it is evident that Army units will not defend the government. The possibility exists that some supporters of the rebels reputed to be at large could resort to terrorist actions.

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PHILIPPINES: Army Crushes Jailbreak

The Philippine Army crushed the takeover of the Army headquarters building Saturday by dissident troops, after an attempt to liberate 100 soldiers held in detention for seizing a Manila television station in January. About 40 dissidents, joined by 40 detainees and 10 military policemen, seized the headquarters building when their escape route was blocked. Army commander Canleso ordered the building to be retaken by elite Scout Rangers after a short negotiation during which only a few dissidents surrendered. One dissident was killed in the assault.

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Although the exact intentions of the dissidents are not known, it appears that this episode was a jailbreak, not a coup attempt. The quick crackdown by the Army should send a message to other military dissidents that the Army will not tolerate actions of this type. Canleso intentionally kept Chief of Staff Ramos and other general headquarters officers out of the action to prevent a replay of the long negotiations during the January coup attempt, which led to charges that the military was unwilling to police itself and of ineffective leadership by Ramos.

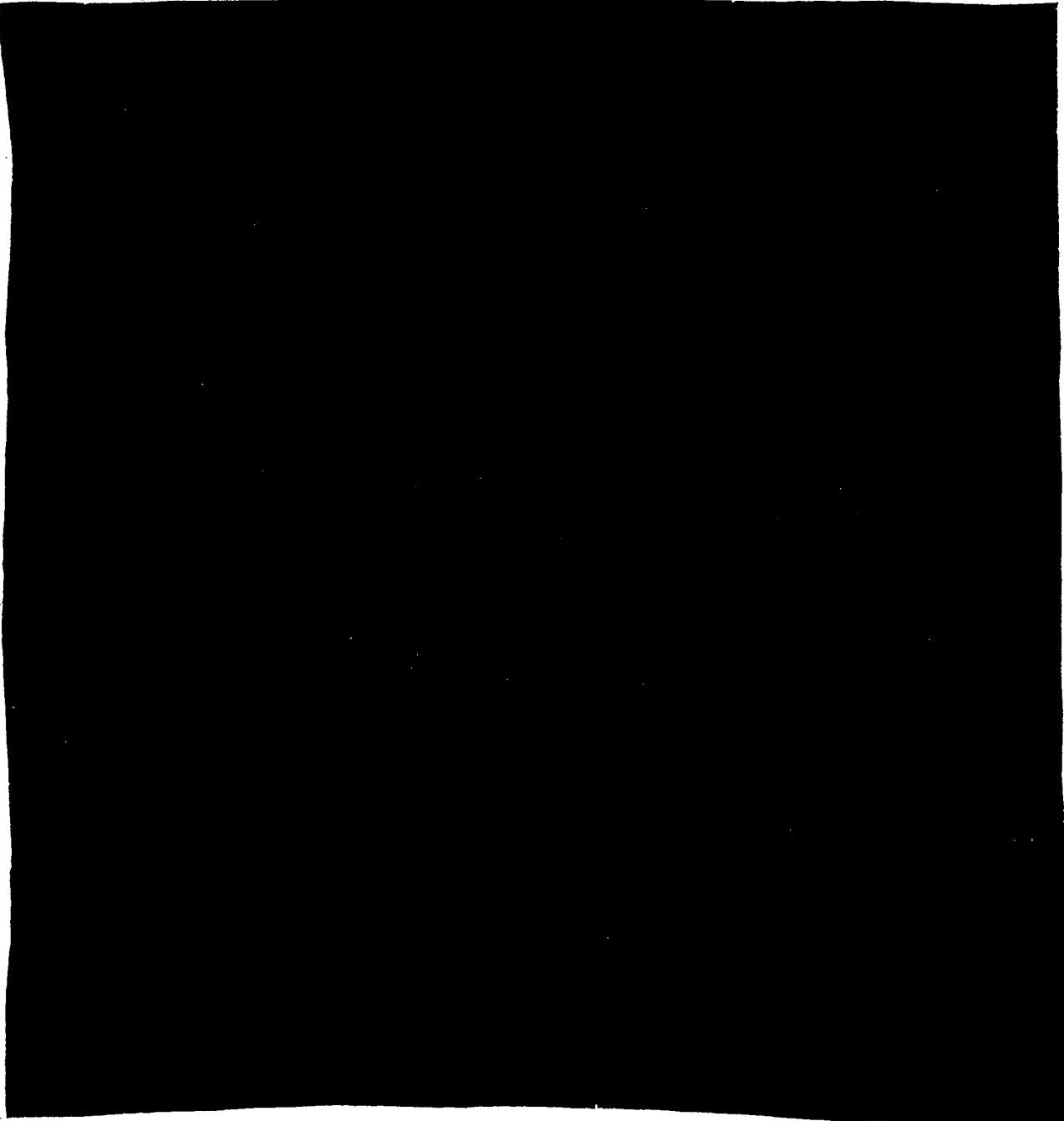
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USSR-AFGHANISTAN: Raid Into Tajik SSR

On Saturday TASS said Afghan Insurgents crossed the border river and attacked Soviet guards on the night of 8 April, killing two guards before being repulsed and suffering heavy casualties. TASS also said the USSR will take every necessary measure to protect its frontiers. Mentioning the US, the Soviet news agency said external forces are primarily responsible for obstructing a political settlement in Afghanistan but that these forces were doomed to fail. TASS added that Kabul can count on firm Soviet support.

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b3 [REDACTED] The only previous Moscow media acknowledgment of insurgent operations against Soviet territory stressed on 2 April that no insurgents penetrated the USSR in a cross-river rocket attack that killed one. The more authoritative TASS statement indicated rising concern over border vulnerability and possible effects among Soviet Tajiks. One justification for Soviet troops in Afghanistan has been an alleged US intention to threaten the USSR from there. Publicizing such attacks may be intended to prepare the Soviet public for a continued military presence despite efforts to reach a political settlement.

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SRI LANKA: Massacre Ends Cease-Fire

The massacre of more than 120 people—including some off-duty military personnel—on Friday, allegedly by Tamil guerrillas, caused the Sri Lankan Government to revoke its unilateral cease-fire and may spark islandwide rioting. [REDACTED] the government is making little effort to restrict inflammatory press coverage of the incident. Colombo blamed the Liberation Tigers of Tamil Eelam—the most powerful Tamil Insurgent group—for the killings. Troop reinforcements have been sent to the area, and Colombo is arming local Sinhalese residents for protection. [REDACTED] Tiger spokesmen have denied responsibility for the killings. Meanwhile, a proscribed radical Sinhalese Marxist group—the People's Liberation Front—last week stole a large supply of weapons from an Army camp in the south.

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b3 [REDACTED] The killings are the worst single incident since May 1985 and probably were intended to sabotage Colombo's efforts to restart Indian-backed peace negotiations. Such events have caused islandwide rioting and reprisals against Tamil civilians in the past, but a military success against the insurgents in the next few days may reduce the possibility. Widespread agitation from the Sinhalese community may force President Jayewardene to delay resumption of peace talks and return to military operations. The attackers—who reportedly spoke Sinhalese—may have been members of the radical Marxist group from the south, who have strongly opposed the government's peace initiative and have used terrorism to sabotage such efforts.

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USSR: First Peaceful Nuclear Explosions Since Moratorium

Moscow announced yesterday that two underground nuclear explosions with yields up to 20 kilotons had been conducted in the Perm Oblast. They were said to have been undertaken "in the interests of the national economy."

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The announcement was the first ever by the USSR for a peaceful nuclear explosion (PNE), extending Moscow's recently initiated policy of immediately announcing nuclear weapons tests.

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USSR: Spring Grain Sowing Delayed

Abnormally cold weather since early last month has delayed sowing of spring grains in the Ukraine and the northern Caucasus—two important grain-producing regions—by as much as two weeks. In addition, an unusually cold and snowy winter caused above-average winterkill, estimated at 30 percent of the winter grain crop, necessitating substantial replanting with lower yielding spring grains.

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The Soviets are not likely to achieve the planned grain harvest of 232 million tons and will find it difficult even to match last year's 210 million tons. The pending delayed planting of spring grains and long dormancy of winter grains will make this year's crop more vulnerable than usual to losses from summer heat and possible early frosts. The late spring may also make it difficult for the Soviets to meet other crop production targets this year.

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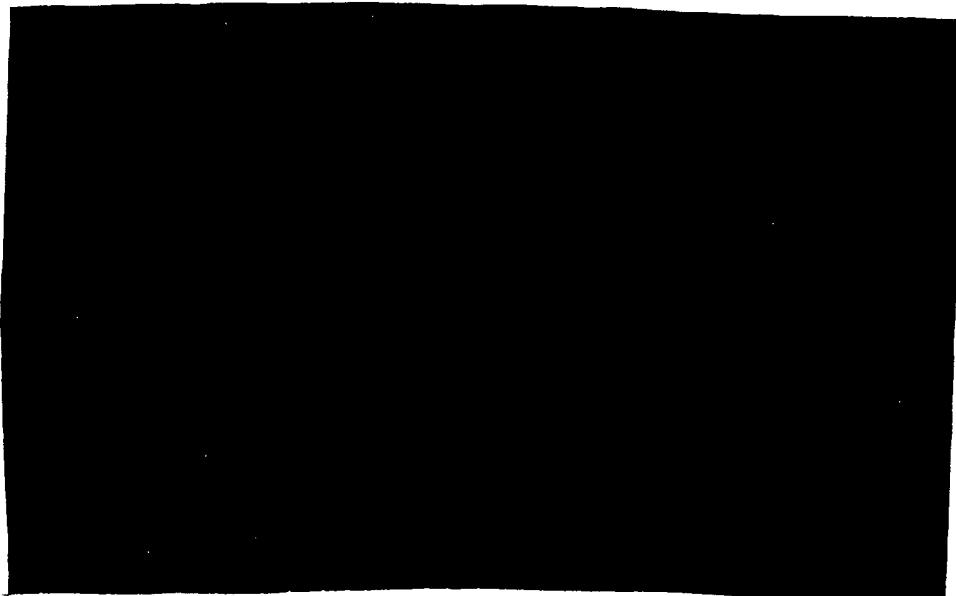
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AUSTRALIA: Opposition Regrouping

Australia's conservative Liberal and National Parties have agreed to maintain their joint opposition to Prime Minister Hawke's Labor government, thereby frustrating Queensland State Premier Bjelke-Petersen's efforts to break up the opposition coalition. Bjelke-Petersen's Queensland National Party announced recently that its members would resign from the opposition coalition.

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Bjelke-Petersen's failure to split the coalition almost certainly will prevent him from gaining control of the National Party before the election that must be held by April 1988. Opposition leader Howard has probably strengthened his standing within the opposition by his handling of the defection by the Queensland National Party and by his recent sacking of Andrew Peacock, his main rival within the Liberal Party. Peacock, who was fired as opposition spokesman for foreign affairs after severely criticizing Howard, is against continuing the coalition without the Queenslander's participation and probably will use the agreement to maintain the coalition in order to challenge Howard's position. Although the fighting within the opposition should help the Labor government in public opinion polls, Hawke has said he will not call for an election at this time because the polls show that Australians remain dissatisfied with the government's handling of the economy.

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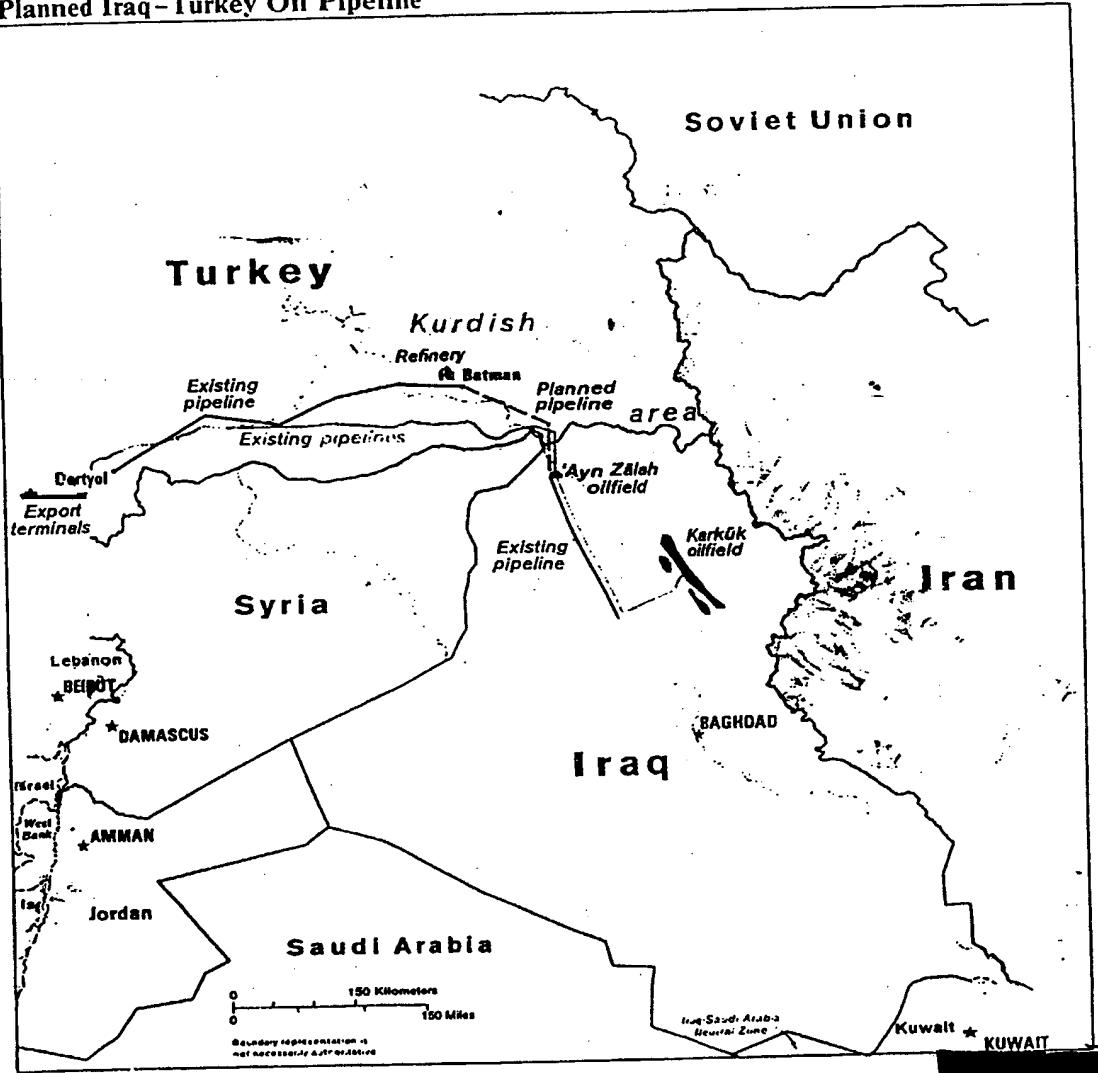
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Planned Iraq-Turkey Oil Pipeline



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In Brief

Middle East

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— Iraq, Turkey planning third oil-export pipeline from northern oilfields to Batman, Turkey . . . will reinforce economic ties . . . 70,000-b/d line may triple exports now trucked through unstable Kurdish area . . . may connect to Dortyol line.

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— Lebanese Druze leader Walid Junblatt visiting Moscow this week . . . Junblatt expected to request Soviet military aid, protection from Syrian assassination plots.

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East Asia

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— South Korea will sign high-technology trade memorandum of understanding with US next month. Differences will remain, however, over controls on non-US-origin technology, Seoul's responsibilities for export licensing.

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Americas

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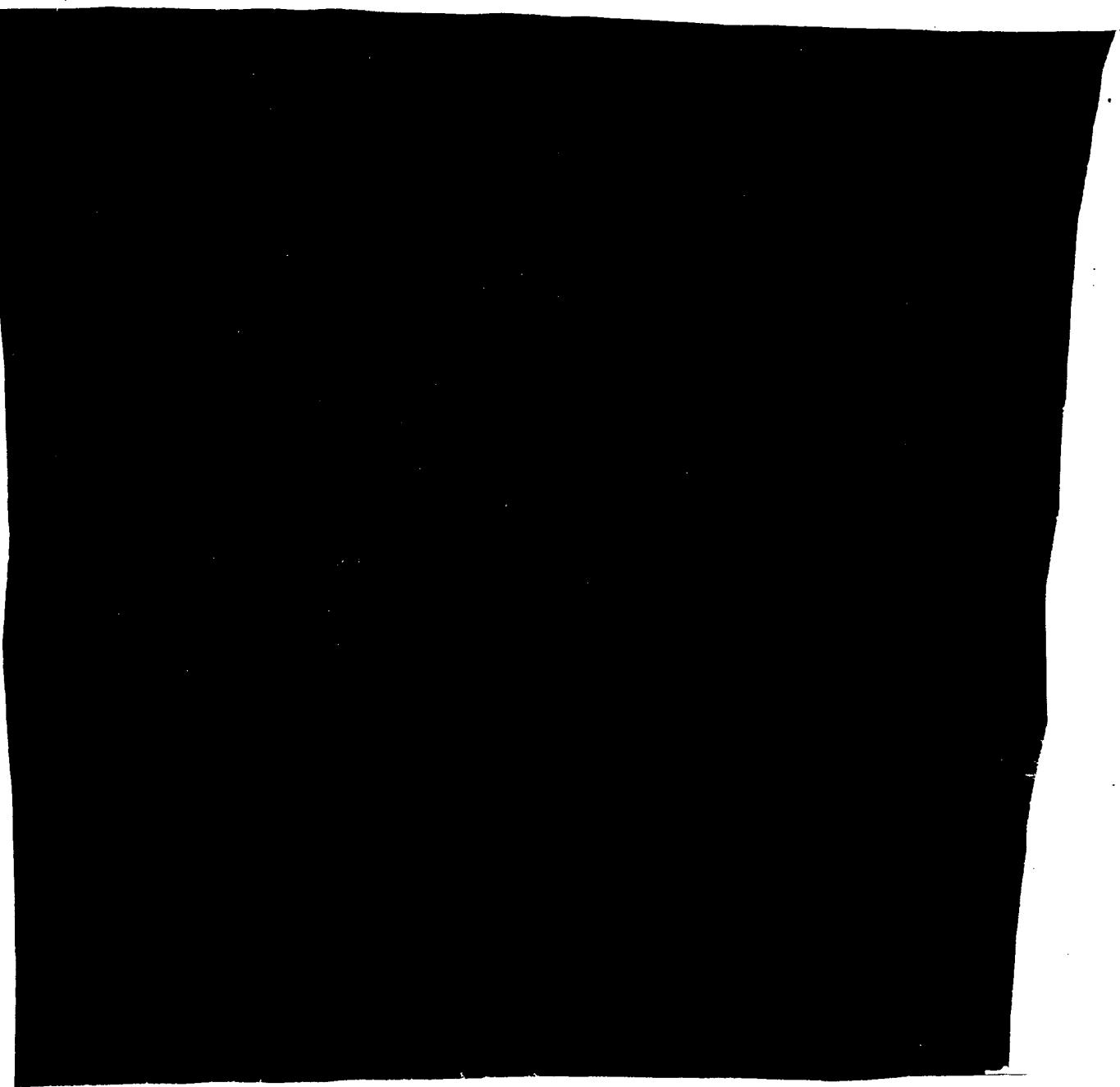
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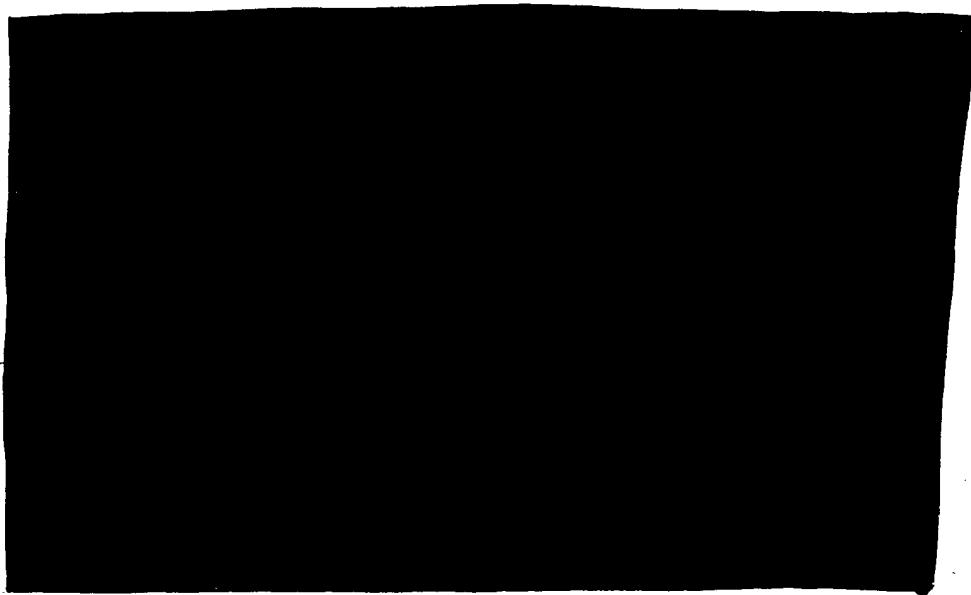
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Special Analysis

IRAQ:

Economic Response to Isolation by War

Iraqi President Saddam Husayn's sweeping economic reforms probably will improve industrial performance and strengthen his one-man rule. The cost of the war with Iran and a belief that Baghdad cannot depend on financial and political support from its Arab allies probably prompted Husayn's recent changes. The reforms are also meant to project confidence and deflect popular attention from the battlefield.

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Iraq's highly centralized, rigid economy has impeded industrial performance because of excessive regulation and a lack of initiative by managers and workers. Since February, Baghdad has instituted wide-ranging reforms intended to reduce government interference, give more authority to state industrial enterprises at the expense of the government ministries, and increase worker productivity in the industrial sector. Less publicized austerity measures include 10- to 15-percent cuts in ministry budgets, reduced benefits to blue-collar workers, and reduction in the government payroll.

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Husayn also is likely to expand the private sector by merging some state-owned enterprises with private concerns in order to tap private manufacturing expertise and capital. Some state enterprises probably will be abolished if they perform badly.

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Rationale, Impact of Changes

The collapse of oil prices last year and the large share of resources devoted to the war have increased the need to remove inefficiencies from the economy.

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Husayn's recent attention to the economy is also intended to persuade the public that Baghdad can both stop Iranian ground attacks and focus on civilian pursuits. Extensive domestic media coverage of the reforms and calls for greater effort by the populace probably are intended to reinvigorate civilian support for the war by holding out hope of an eventual return to normalcy.

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The changes should enable Iraqi industry to cope better with shortages of foreign exchange needed to purchase imports of raw materials and spare parts. The reforms will not alleviate Iraq's fundamental economic difficulties, however—its large foreign debt, low oil prices, and war expenditures.

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Confusion and managers' fears of failing to meet higher output and quality standards probably will hinder the changes. Managers, unaccustomed to running their own shows, are not sure what is expected of them and probably will have difficulty adjusting to their new responsibilities. b3

Outlook

Husayn is pragmatic enough to expand the private sector and allow increased foreign investment if it results in higher performance. But the regime still exercises considerable control over the economy, and the changes do not signify a break with the ruling Ba'th Party's socialist tenets. Instead, the moves are an effort to correct shortcomings identified by the party's regional congress in 1982.

Even so, Saddam's repeated public warnings to foot-draggers and "deviationists" suggest that some government and party officials are resisting the reforms. Husayn's shuffling of ministry posts and his readiness to replace officials who stand in his way make significant opposition unlikely. b3

The moves probably weaken First Deputy Prime Minister Ramadan, the economic czar who is considered a likely successor to Husayn. Ramadan has so far played a minor role in the changes, and decentralization probably will reduce his decisionmaking authority. Moreover, the new Minister of Industries Abd al-Rashid—a US-educated economist related to Husayn—now seems to have Husayn's attention, and his strong support for decentralization probably will further undermine Ramadan. b3

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